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THIS IS THE FIRST ISSUE of the *Business and Economic Review.* It is the culmination of a movement by members of the faculty to broaden research activities in the School of Business and Public Administration. We are pleased to make it available to interested persons in the State of Missouri.

The *Review* is designed to publish stimulating articles on the functioning and structure of our economy. From time to time it will include articles by faculty members of the University as well as business and professional leaders.

Special emphasis will be given to research programs inaugurated or sponsored by the Bureau of Business and Economic Research. We hope it may serve to clarify economic issues and promote intelligent discussion of business and economic problems.

William L. Bradshaw, Dean
School of Business and Public Administration

NOTES ABOUT THE AUTHORS

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Prior to her retirement Mabel Newcomer was Professor and Chairman of the Department of Economics at Vassar College. A recognized authority in the field of government finance she has been a visiting professor at Columbia University, the University of Chicago, Stanford University and Syracuse University.

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He has many articles to his credit in the fields of marketing and statistics which have been published in professional journals such as the *Journal of the American Statistical Association, Journal of Political Economy, The American Statistician,* and *Journal of Marketing*. His study, "How to Rank the First 168 Retail Markets," won the Editor and Publisher Award in 1953.

Taxes and Prosperity

MABEL NEWCOMER
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Just after World War II when many people were worried about a postwar slump in business, Congress passed the "Employment Act of 1946." This Act places the responsibility for maintaining a high level of employment and a steadily rising national income squarely on the national government; and the Council of Economic Advisers was established to assist in this.

It is now widely accepted that the government can and should prevent major business fluctuations. Arthur Burns, former economic adviser to President Eisenhower, has said recently that "the people know that depression is not an act of God. They have become economically literate." The debate today concerns not whether the government should undertake this function, but what measures should be taken to this end.

There has been no serious depression since the nineteen-thirties, but there was a marked recession in 1958; and while the gross national product came back to its earlier level within a few months substantial unemployment has remained; and unemployment coupled with inflation is hard to deal with. Moreover, the price increases in the industrial sector of the economy have not been accompanied by comparable increases in the farm sector.

In dealing with this problem President Eisenhower has emphasized the importance of checking inflation and has urged a balanced budget and a tight money policy for this purpose. Although last year there was an unexpected deficit of $13 billions this year's budget appeared to be nearly in balance until the steel strike reduced prospective tax yields. With regard to the tight money policy, interest rates have been increased, but without any apparent check on prices. The area of administered prices is so extensive today that only a long drawn out depression like that of the nineteen-thirties is likely to bring any substantial price reduction.

THE EMPLOYMENT ACT OF 1946

The task that was assigned to the government by the Employment Act of 1946 is not a simple one, but complex as it is it should be less difficult than preventing (as we did) a runaway inflation in time of war. We have in operation today some very useful automatic stabilizers, notably the social security system and the progressive income tax. These cut private pur-

chasing power most in periods of rising business and tend to maintain private purchasing power in periods of falling business. The great virtue of such automatic correctives is that they act promptly, and neither the president nor members of Congress need take responsibility for the consequences. They do not present the political problem of new measures. They must be supplemented by other actions, however, to be effective; and when the problem is inflation the cure may be higher taxes. And increases in taxes are always strongly resisted by the voters. The cure for inflation may be less painful than the disease, but few citizens can be persuaded of this at the time. The use of taxes to check inflation tends to be the weakest link in the chain of measures that we call fiscal policy.

OPPOSITION TO TAXES

In recent years opposition to taxation has grown. We not only talk of the "burden" of taxation; we estimate how many weeks a year we work for the government, and how many for ourselves. The implication is that government spending impoverishes private citizens. There is, of course, waste in government spending, although it is doubtful if it is greater than the waste in corporate spending. It is human nature to be more careful of one's own money than other people's, whether the taxpayers or the stockholders. But the savings we are likely to get from greater vigilance, desirable though they may be, will probably never reduce our taxes appreciably.

Most government money is spent for things that are vital to our welfare, such as national defense, education, highways, health and sanitation. The question today is whether in competition with Russia we are spending enough. Unfortunately we have two obsessions that get in our way. One is that expansion of government is "socialism," and to be avoided. The other is that taxes make us poorer. In consequence, we refuse to vote for things that we need and want—school bond issues and other important measures.

"Socialism" in this connection is a meaningless label. The problem is how to get what we want with minimum waste and maximum efficiency, and in some areas the government can provide the services better than private enterprise. It is not necessary for the government to compete with private enterprise. Most of the profitable sectors of our economy are still in the hands of private business—including the whole field of manufacture, commerce, and trade. Even government construction is usually let to private contractors.

NEED FOR TAX REVISION

The government spends money as a customer rather than as a competitor. With regard to taxes, these are thought of as a burden not because we get nothing useful in return but because, being indirect payments, they are not always associated with the services they provide. And in addition there is always the chance that they can be levied on someone else. Moreover, they are in fact inequitable as we measure tax equity. What is needed today, I believe, is to abandon all thought of tax reduction and to concentrate on tax revision.

I can only indicate here a few changes that are needed. Our federal personal income tax, which is the largest single source of taxes in the United States today, is based on the widely accepted principle of ability to pay. But in practice it has serious faults. Personal exemptions are too low. Six hundred dollars is no longer a realistic minimum of subsistence as it was, I think, when it was first provided. And rates at the top are too high. Taxpayer morale is better in the United States than

in most countries, but it weakens as the rates increase.

Also, the tax base for both individual income and corporation income taxes has suffered serious erosion from special tax reductions. Some of these are intended to relieve real hardships. Others have arisen from pressures of special interests. They include such measures as the double exemption for taxpayers over sixty-five, special abatements for dividend income, the oil depletion allowance, tax exempt interest from state and municipal bonds, low rates on capital gains, and many more. If all these were to be abolished at the same time that the general rates were lowered and personal exemptions raised, it would be possible to obtain as much revenue from these taxes as they now yield with a more equitable levy.

Need for State Tax Revision

Many of the services for which increased funds are needed are, like schools, supported from state and local revenues. Differences in state tax systems make it impossible to generalize, but in many states it would be reasonable to introduce general sales taxes or to increase the rates of existing levies. A tax on food creates serious hardships for low income families, but present day consumption patterns are such that this tax can be very productive even though food and perhaps a few other basic necessities are exempt. Also, if the federal government should revise its tax on personal income there should be room for more substantial state levies on this base than we find in the majority of states today.

Local governments are still largely dependent on property taxes, and inequitable assessments make these even less defensible than the federal income taxes. I am convinced that efforts to reach personal property through this tax are doomed to fail, but real estate offers an important local tax base and accurate and equitable assessment of real estate is entirely practicable. This would probably require state assessment since local political pressures make equitable assessments by local officials difficult, and perhaps impossible.

STABILIZATION POLICY

Tax revision is essential in the interests of equity, and to provide revenue for essential government services without the taxpayer resistance we find today. But this is not all. Not only does the government provide essential services. It is impossible to finance these in such a way as to minimize business fluctuations and promote a steadily rising national income. Our present tight money policy and attempts to balance the budget are not in themselves sufficient. What the federal government should be setting as its goal today is not a balanced budget but a steady increase in the gross product. Our national income should be rising, not two or three percent as it has been recently but five percent or more. Many economists believe this to be both desirable and practicable given a sound and consistent government program. Fiscal policy and monetary policy must work together. It may be necessary, also, to institute a few well chosen price controls in view of the present inflation.

There are times when a balanced budget is needed. There are even times when surplus applied to debt reduction would help. But if an unbalanced budget will reduce unemployment and increase production when other measures fail it should be used to this end. We have had more—and more profitable—private business enterprise in the last twenty years than ever before in our history in spite of experiencing also the heaviest taxes. The government has been found to be a good customer. In short the government spending which these taxes made possible was in part responsible for this continued prosperity.

Missouri Agriculture in Transition

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Corporate businessmen are becoming more and more concerned about the "image" or the mental impression that is associated with the company name and company products. Indeed systematic research is being supported to determine those aspects of the company's contact with the public which arouse unfavorable attitudes and those which stimulate and build favorable reactions for the company in the public consciousness.

Agriculture too has "image." It is being painted by many hands. The press account of the "crises in government farm programs" has painted a picture of chaos, of agriculture almost entirely dependent on the public dole. The concern about agriculture's problems has elicited a wide range of prescriptions which if applied would presume to solve them. The National Association of Chambers of Commerce and the American Bankers Association, for example, have proposed solutions. Other groups also have hopefully offered remedies. Debates on the farm problem have consumed a lot of energy in the National Congress. All of this discussion and activity have resulted in a public image of agriculture that frequently overlooks the real nature of the changes in agriculture. The discussion tends to obscure the terrific forces which are altering the very form and essence of agriculture. To many the image of agriculture has become a mosaic of inconsistencies.

One of the difficulties is that many of us recall the agriculture of our boyhood days some 20 to 30 years ago. Unconsciously we translate this picture of our experiences to be representative of the form and content of agriculture today. It is true we recognize that farmers use more fertilizers, more machines, more tractors and electric power in their farm operations. We often laud these developments as making farm work easier, that individual farmers can now produce much more than we could on that home farm 30 years ago. On the other hand, I fear that we often do not take the next step in the process of following the impact of these developments on total agricultural output of this country. The rapid increase in technological applications in the last 20 years is powered by the economic incentive individual farmers have to reduce labor inputs and to reduce costs generally. But the adoption of cost reducing technology by even a portion of the farmers tends to reduce the general level of farm product

prices through output expansion. This ultimately impinges adversely on the income position of those farmers unable to acquire and to adapt new technologies. This is the root of the problem.

TECHNOLOGICAL BASES OF AGRICULTURE

Most of us are aware of the general progress of the national economy. We can see it everywhere in the new products offered, in new plants and equipment, and the improvements in highway systems and in airports being constructed. As a part of overall progress, we are probably less aware of the fact of the greater change in agriculture which has occurred in the last 20 years.

Familiar, is the fact that the number of consumers supported by the food and fiber production of one farm worker has more than doubled since 1940. In 1940 one farm worker provided food and fiber for eleven persons; in 1958 he produced enough for 24 persons. This is a gross measure of farm worker efficiency.

Productivity of farm labor in terms of output per hour has risen over 400 percent since 1910-12. Nearly all of the increase, however, has occurred since 1935 when application of agricultural technology and technology in general came to be felt. Farm output since 1940 has increased at a rate of 2.5 percent while man hours of labor used decreased at the rate of more than 3 percent annually. (Figure 1). This great increase in labor productivity came about in part through genetic improvement of crops and animals, through improved methods of management, and disease and pest control through the use of chemicals. But the greatest source of labor productivity increase came from extensive application of fertilizers and use of power and power equipment.

Fertilizer used, in terms of plant food nutrients applied, has increased four-fold

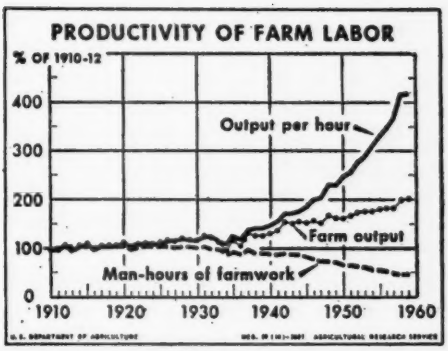

Figure I

since 1940. Some have calculated that approximately 20 percent of the total national agricultural output is from fertilizer use. The impact of fertilizer has been to increase output with little increase in input. The rise in yields per acre of most of our leading crops has ranged from 20 to 75 percent over the last decade.

The total quantity of inputs in agricultural production has remained virtually unchanged during the last decade while farm output increased about 25 percent. Farm labor which accounted for nearly one-half of total agricultural input had declined to 30 percent in 1958. Power and machinery inputs, however, increased 37 percent during the last decade.

The above brief sketch on the technological bases of agriculture implies that in this country we are increasingly dependent on technological advance and adjustments between resource inputs, rather than on increases in quantity of resources used, in sustaining the volume of farm output.

It is also clear that the forces of research and technology on the agricultural scene have gained new momentum and power in recent years. The problem in agriculture today lies in the speed of transformation in agriculture as contrasted to other sectors of the economy. The rate of productivity increase per man hour in agriculture since 1951 is twice that of manufacturing

industries and three times that of all the non-farm sectors of the economy. The forces of change and the incentive for further changes in the agricultural sector are in large measure irresistible. The impact of these forces is chiefly on the labor resource in agriculture. In a very real sense a portion of the labor in agriculture is redundant and must find other employment opportunities. This fact quite naturally affects our rural society, educationally, politically and socially. Literally nothing is left untouched in the rural society. The small towns and rural cities, largely dependent on agriculture as service centers, likewise are affected in terms of the volume and type of business opportunities afforded by the changed structure of agriculture.

AGRICULTURAL PRODUCTION AND MARKETING

At the time of the American Revolution it was essentially accurate to consider agriculture as being more or less a self-contained industry. The typical farm family produced its own food, fuel, shelter, most of its tools and raised its own power. Only a few items of necessity were bartered for or purchased from off the farm. Nearly 90 percent of the labor force was in agricultural pursuits. Nearly all processing of farm products was accomplished in the home. Gradually improvements in field tools released a part of the labor force for other economic activity. At the time of the Civil War simple mechanization had reduced the labor force in agriculture to 60 percent. After the Civil War, increasing adoption of further improvement in machines and techniques made it possible to increase agricultural exports which financed a large share of industrial development in this country. The railroad network, the foreign outlets and rapid population growth in this country favored the development of commercial facilities for handling, storing, processing, and the distribution of food and fiber products. By 1910 the marketing structure for farm products was fairly well developed.

The introduction of power, first the steam engine and later the gasoline engine and to a lesser extent electricity, energized the second great wave of change in agriculture. The gasoline engine probably was the most revolutionary in terms of the impact on agricultural production. Its impact, however, was gradual until the mid 1930's when the full force of improved farm tractors and accompanying machines on agricultural output was unleashed by wartime food demands. Power machines and equipment remain the central force in today's productivity increases.

The significant aspect in the historical evolution of agriculture is the present merging of production and marketing activities in contract to an essentially self-sufficient agriculture of the past. The market for output was fairly well developed by 1900. It is estimated that 80 percent of the production inputs were farm produced—only 20 percent were purchased. Today about 60 percent are purchased. Indeed a large share of the productivity increase in agriculture today is in reality the transfer, for example, of the efficiencies in petroleum and fertilizer manufacture, the efficiencies of mass production of farm power and machines into agriculture.

On the marketing side for outputs we are cognizant of further expansion of food handling, processing, packaging and distribution since the 1930's. Sale of farm processed butter and meats, not uncommon then, is practically extinct today. In contrast to several decades ago more of the total farm food output passes through commercial channels. Farm families themselves are more dependent upon purchased food supplies. House canning and processing of

TABLE 1

ESTIMATED CASH RECEIPTS FROM FARM MARKETINGS, MISSOURI 1957

	Thousand Dollars	Percent
Cattle and Calves	$285,597	28.3
Hogs	232,115	23.0
Dairy Products	125,296	12.4
Eggs	38,983	3.9
Broilers	15,313	1.5
Sheep and Lambs	13,284	1.3
Turkeys	12,951	1.3
Farm Chickens	4,822	.47
Wool	3,545	.35
Other Poultry	1,738	.17
Other Livestock and Products[1]	1,844	.18
Total Livestock and Products	$735,488	72.9
Wheat	$ 63,840	6.3
Soybeans	75,381	7.5
Corn	45,938	4.6
Cotton lint (Wet season)	32,378	3.2
Hay	8,311	.8
Sorghum Grain	5,731	.57
Oats	3,660	.36
Cottonseed	3,066	.30
Tobacco	2,618	.26
Lespedeza Seed	1,951	.19
Barley	1,821	.18
Tomatoes	1,084	.11
Red Clover Seed	938	.09
Timothy Seed	857	.08
Rye	604	.06
Rice	592	.06
Popcorn	526	.05
Potatoes	207	.02
Other[2]	3,109	.31
Total Field Crops	$273,636	27.1
Strawberries	1,993	.19
Apples	1,252	.12
Watermelons	1,728	.17
Peaches	774	.07
Other[3]	807	.08
Total Fruits and Nuts	6,554	.65
Forest	3,656	.36
Green House and Nursery	10,814	1.07
All Commodities	$1,009,124	100.

[1] Beeswax, honey, horses and mules, mohair, goats, rabbits, minks.

[2] Mung beans, sweet potatoes, asparagus, green lima beans, snap beans, beets, cabbage, cauliflower, sweet corn, cucumbers, eggplant, lettuce, green peas, green pepper, spinach, other vegetables, sorgo sirup, alfalfa seed, alsike clover seed, cowpeas, sweetclover seed, bluegrass seed, bromegrass seed, crimson clover seed, fescue seed, orchardgrass seed, redtop seed, ryegrass seed, Sudangrass seed, vetch seed, broomcorn, castor beans, other.

[3] Grapes, pears, cantaloups, pecans, raspberries, other berries, walnuts.

TABLE 2

ESTIMATED CASH EXPENDITURES FOR PRODUCTION OF MISSOURI FARMERS 1957

Item	Thousand Dollars
Feed, Seed, Fertilizer	
Feed	$161,300
Seed	16,600
Fertilizer and Lime	47,900
Total	$225,800
Repairs and Operation of Capital Items	
Building materials	$ 12,658
Petroleum fuel and oil for motor vehicles	49,449
Repair parts, tires, batteries, motor vehicles	17,477
Repair parts, tires for other farm machinery	6,303
Total	$ 85,887
Miscellaneous Operating Supplies	$ 20,196
Expenditures for Capital Items	
Building materials	$ 32,944
Tractors	20,861
Trucks	16,992
Automobiles	16,933
Other machinery & equipment	30,137
Total Capital Items (excluding labor)	$117,867
Expenditures for Services and Other non-Supply Production Items	
Livestock, Labor, Taxes, Interest and Rent	
Livestock Purchased (4.2%)	$ 87,744
Hired Labor	65,243
Taxes on farm property	32,880
Interest on farm mortgage debt	10,427
Net Rent to non-farm landlords	33,219
Total Services & non-supply	$229,513
Miscellaneous Current Operating Expenses	
Fire, wind and crop hail insurance	$ 4,840
Veterinary fees	14,290
Hired hauling of milk	4,358
Ginning	3,250
Horses and mules	60
Crop insurance	332
Short term interest on non-real estate	9,285
Electricity	5,890
Telephones	3,765
Livestock marketing charges (4.2)	4,267
Total Miscellaneous Current Operating Expense	$ 50,337
TOTAL CASH EXPENDITURES	$729,600

fruits and vegetables are one-third less than that fifteen years ago. On the other hand, with 95 percent of the farms electrified, more home produced meats and fruits are frozen for home consumption. But the total quantity of consumption of home produced foods continue to decline.

CHANGE IN FARM LIFE

Some might conclude that the gradual dispersion of functions formerly performed on farms to business firms off farms is unhealthy, that the "way of life" has been destroyed. Further, that the dependence on others for the manufacture of production supplies makes the farmer quite dependent on other firms and thus is at a disadvantage in controlling his business. It is true that today agriculture only retains generally the function of producing crops and livestock but the evolution of the economic integration has brought many benefits. It has reduced drudgery; it has released a part of the labor force for off-farm businesses. Quality of food and fiber products as well as services associated with their distribution have improved greatly. In short, this transition has contributed to and is part of the generally rising levels of living not only among farm people but throughout the economy.

The gradual transition and the dispersion of former farm activities have their roots in the progress of the general economy and have been occurring gradually for over a century. The rate of change in and the increasing interdependence of agriculture have accelerated during the last two decades. The significance of the decentralized and specialized functions now characteristic of food and fiber production and distribution lie in the problems of maladjustment and imbalances it creates in the relationships of the loosely integrated parts.

The differences in the pricing structure between the products farmers purchase and those he sells is an illustration of one of the basic concerns of most agricultural producers. Many believe that the vagaries of price uncertainty of farm products in contrast to the relative stability of prices of machines and production supplies create a position of extreme disadvantage for farm producers. This problem is central to the interrelationships between farmers with the supplies of his production services and with the handlers of his products. The federal government in the last several decades has attempted through various programs to ameliorate the position of farm producers in the new setting through various types of programs. Yet the problem remains.

Some have doubts that the problem of extreme price variability, characteristic of primary agricultural products, can be solved by government efforts. They hold to the view that contractual arrangements between farm product producers and processing firms will be increasingly required to improve the stability of product flows from agriculture into market channels and thus reduce the susceptibility of extreme price fluctuation. The question of contractual integration between producers and marketing and processing firms is a controversial one in farm circles. The idea certainly has merit in binding together contractually the present loosely economically integrated parts of production and marketing functions. But a greater question is the future role of farmers as independent operators.

AGRICULTURE IN MISSOURI

A composite picture of these interrelationships for the State of Missouri can be gained from an examination of cash farm marketings for 1957 (Table 1). Total product marketings in 1957 amounted to $1 billion. Significant also is the variety of crops produced in Missouri. But the agriculture of this State is primarily oriented around various livestock enterprises. Over

one-half of all cash receipts are from cattle and hog enterprises. The dairy enterprise contributes about one-eighth of the total. While the State is a large producer of corn, relatively small portions of the corn reach the market directly. A large proportion is fed to livestock on farms. Field crops as a group contribute about one-fourth of the cash receipts going to Missouri farmers. Fruits and nuts while important in several localities contributed less than one percent to total cash returns.

Cash expenditures for production items in 1957 amounted to over 700 million dollars (Table 2). The largest single expenditures were for feed, indicating in part the great dependence of Missouri agriculture on livestock enterprises. Feed, seed, and fertilizer represents nearly one-third of the total expenditures for production supplies. Expenditures for capital items amounted to roughly one-sixth of the total. These expenditures exclude imputed costs of farm labor and charges for land. It is significant that cash expenditures for production items were equivalent to 72 percent of gross farm sales. This percentage relationship is higher than the national average and in a rough manner indicates the degree of interrelationships and dependence of Missouri agriculture on the non-farm related businesses.

The net cash receipts to Missouri farmers from farming operations amounted to $279 million. This amount represents payment for return to land and to operator and family labor. Additional income from government payments, and the imputed value of home consumption and rental value of buildings brings the total net farm income adjusted for inventory change to nearly 422 million dollars in 1957. The implication of the great interdependence between the firms supplying agriculture and those servicing the processing and distribution functions is quite clear. These interdependencies are reflected in the increasing interest with which firms associated with agriculture concern themselves with problems of agriculture. Rural bankers for example increasingly have become concerned with problems of farm production. The success of their credit programs is intimately tied to the success of individual farm operations. The greater managerial skills required and the increasing economic hazards of the farm business in this new setting call for re-evaluation of older standards of credit worthiness of farm operators.

Another aspect of recognition of the interdependencies is the slogan adopted by the Grocery Manufacturers of America, "The Lifeline of America." The lifeline is a symbol of interdependencies of all activities and firms ranging from farm producers to food retailers. The American Meat Institute has adopted the slogan of "The Meat Team" idea. Again the idea conveyed is that of the interdependencies between the rancher and all intermediate processes to final meat retailer. Nearly all the major primary food product groups have similarly organized programs on an "industry wide" basis implying recognition of these interdependencies. Some have cynically pointed out that leadership of large food processing firms in these efforts, while obviously good public relations beamed at farm producers, has contributed little to the solution of problems of interrelationship.

The "good old days" of relative self-sufficiency of agricultural producers is not likely to return. The evolution of the present structure of agriculture will continue. The real problems of agriculture are the basic ones associated with these developments of interdependencies. It is a phenomenon and is part of a highly developed economy. Understanding and appreciation of the forces of progress, of change, are needed in appraising the unfolding developments in the agriculture of Missouri.

Business Forecast for 1960

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THE RECENT PAST

The year 1959 marked a revival of the prosperous forces which have dominated the U. S. Economy since World War II. Three times in the postwar period (1949, 1953-54, and 1957-58) weaknesses developed which, while potentially serious, nevertheless were contained without critical consequences.

During the past ten years the size of the economy has expanded greatly. From a gross national product of $285 billion in 1950, the output of goods and services has climbed to a level of almost $482 billion in 1959. Even when the effect of price increases is extracted we find that the expansion, in real terms, amounts to $112 billion (based on constant dollars of 1950 value). Thus, our economy has grown by almost 40 percent during the last ten years.

This is the record of a resilient economy. It is true that some forces are always at work, which, if left uncontained for sufficient time, could bring about disaster. But, in view of the present size of the economy and the high degree of complexity of economic foundations in the U. S., the record of the past ten years must be given a vote of confidence.

The basic factors in the recent growth were: (1) a high and increasing level of personal income payments; (2) a supply situation in which product innovation motivated a high level of consumer demand; (3) an increasingly high level of government purchases of goods and services; (4) a high degree of public confidence in the effectiveness of automatic stabilizers; (5) rising hourly wage rates even in periods when unemployment was increasing; and (6) good fortune in the timing of monetary changes by the Board of Governors of the Federal Reserve System.

The year 1960 will be a year when the gross national product tops $500 billion. Yet, this tremendous achievement and those of the past few years are diminished by failures which cut hard into the American consciousness. From almost every quarter one hears of failure: (1) in the space race; (2) in the training of technical specialists; (3) in secondary education; and (4) in the foreign aid area.

In essence, it would seem that while we have learned to harness the powers that produce goods we are yet some distance from achieving clarity in government administration and in cultivating an image of

America that has a meaningful appeal to foreigners. Continued prowess in production may have little meaning for us unless we make progress in resolving these modern problems.

ASSUMPTIONS FOR 1960

The underlying assumptions upon which the itemized forecast for 1960 is based are as follows:

1. Public confidence will be strong. Pockets of unemployment will continue to exist but these will not gather in an accumulating fashion to destroy prosperity conditions.
2. Strikes will probably occur in some industries but they will be resolved without impairing the economy.
3. No significant war will develop.
4. Federal, state, and local government expenditures will rise to new high levels.
5. There will be little change in tax rates although the movement for tax revision will gather force.
6. As an offshoot of "consumer confidence in prosperity," consumer credit outstanding will continue increasing throughout most of 1960.
7. New construction activity will continue at a high level but its rate of growth will fall slightly.
8. Prices will continue rising as a result of strong market pressures upon resources.

GROWTH OF MALADJUSTMENTS

The Employment Act of 1946 provides that government shall have responsibilities for maintaining high employment, production, and income. The basis for the Act was in the growing belief amongst professional economists and laymen during the 1930's that only government expenditures could be large enough to combat depressions. But, it was in the early 1940's that professional economists reacted vigorously against delaying government expenditures until the bottom of a depression had been reached.

There is today almost unanimous agreement that maladjustments grow during cyclical booms and recessions. One of the major forces tending to carry an increasing burden from recession to prosperity, and back to recession again, is government spending. Theoretically, the government spending faucet should be turned on during periods when a major recession or slump occurs and closed down when the vitality of enterprise has returned. However, once applied, spending programs prepared for use during disturbances tend to stay with us after the trough of recession has been reached and are still around when the economy is operating under conditions of extremely high employment. Thus, the next recession, whether one year or five years later, calls forth plans or extensions of existing public works programs which are superimposed on an already high level of expenditure.

Rather than being a tool to relieve severe disturbances by influencing private investment through employment and income, government expenditures are becoming an enormous force around which current business decisions are based. The electorate seems unwilling to curtail a program once it is started and thereby permits the gates to the public treasury to remain open all the time.

There is no question about the useful influence of a stream of government spending when the economy has received a shock. It does seem likely that if it is not carefully controlled after expansion has set in that its usefulness as a stabilizing element *in the next turndown* will have been modified.

THE AGRICULTURAL SITUATION

Agriculture, the industry which used to signal a recession if income fell off, now scarcely receives notice if a decline of 5 percent occurs. The prospect for 1960 is dim. Incomes will be lower. The parity ratio will drop. These conclusions are based on the likelihood that the supply situation will change very little, if at all; that there will be an accumulation of already excessive stocks of some major commodities; and that an increasing volume of livestock marketings will take place. Thus, realized net income from agriculture will decline from about $11.2 billion in 1959 to $10.6 billion in 1960.

While farm incomes have declined the average value per acre of farm real estate has increased with the result that the net asset position of farm proprietors' is improving. One of the factors responsible for this situation has been the gradual increase in the income of farm people from non-farm sources. The U. S. Department of Agriculture estimates that in 1958 nonfarm income sources accounted for 28 percent of the total net income of farm proprietors. The proportion was estimated to be even higher in 1959.

GOVERNMENT EXPENDITURES

Federal budget expenditures for fiscal year 1960 are now expected to be in the neighborhood of $78.9 billion. This is almost $1.8 billion less than expenditures made in fiscal 1959. The receipts situation is also improved. Receipts in fiscal 1960 are fairly certain to be $79 billion—$11 billion greater than last year. The strong upsurge of the economy during most of 1959 produced much higher personal and corporate taxable incomes than were anticipated when the 1960 budget was prepared.

Compensation of government workers is estimated to be 10 percent higher in 1959 than in 1958 and it is expected that there will be equally heavy pressures upon Congress and state and local governing bodies to provide increases in 1960.

CONSTRUCTION

Construction outlays picked up rapidly in 1959, rising almost $6 billion over the 1958 total. But residential building, which accounts for a little more than 50 percent of all private construction activity, has been declining since spring and will probably continue to decline during 1960. The U. S. Department of Commerce figures show high vacancies and a weakness in rents. This situation has followed a slowing down in urban population growth in many areas of the country and is of course influenced by the tightness and high cost of money as well as by the rising costs involved in the building industry.

Nonresidential construction has continued to be firm but the rate of increase has slowed materially in recent months.

Public construction, which accounts for more than one-fourth of total new construction, has held up well. Because of the backlog of projects and continuous pressure to supply demands for military purposes, highways, educational buildings, and other projects it is probable that public construction will show some gain in 1960.

The net gain of all construction in 1960 will be around $1 billion. This represents an increase of slightly less than 2 percent over the 1959 level.

NEW PLANT AND EQUIPMENT

The latest estimates of capital outlays prepared by the U. S. Department of Commerce and the Securities Exchange Commission indicated that outlays for 1959 were expected to total $32.6 billion—7 percent over 1958—and first quarter 1960 plans called for outlays totaling $34.4 billion—5.5 percent above 1959. But, because of the

BUSINESS STATISTICS A

NATIONAL PRODUCT — POP

Year	1. Gross National Product	2. Personal Consumption Expenditures	3. Gross Private Domestic Investment	4. Net Exports	5. Government Purchases of Goods & Serv.	6. Population	Em
		(Billions of Dollars)					
1950	284.6	195.0	50.0	.6	39.0	151.7	
1951	329.0	209.8	56.3	2.4	60.5	154.4	
1952	347.0	219.8	49.9	1.3	76.0	157.0	
1953	365.3	232.6	50.3	—.4	82.8	159.6	
1954	363.2	238.0	48.9	1.0	75.3	162.4	
1955	397.5	256.9	63.8	1.1	75.6	165.3	
1956	419.2	269.9	67.4	2.9	79.0	168.2	
1957	442.5	284.8	66.6	4.9	86.2	171.2	
1958	441.7	293.0	54.9	1.2	92.6	174.1	
1959[a]	481.7	312.1	71.7	—.7	98.6	177.0	
1960[b]	515.0	330.0	80.5	.5	104.0	180.0	

PERSONAL INCOME AND SAVING

Year	13. Personal Income	14. Realized Net Income from Agriculture	15. Wage and Salary Disbursements	16. Proprietors (Bus. & Prof.) and Rental Inc.	17 Personal Interest Inc. & Dividends	18. Personal Saving	19. Index o Industri Producti (1947-49 =
	(Billions of Dollars)						
1950	228.5	14.0	150.2	32.5	19.5	12.6	112
1951	256.7	16.3	175.5	35.4	20.2	17.7	120
1952	273.1	15.3	190.2	37.1	21.1	18.9	124
1953	288.3	13.3	204.1	37.9	22.6	19.8	134
1954	289.8	12.7	202.5	38.7	24.4	18.9	125
1955	310.2	11.8	218.0	41.1	27.0	17.5	139
1956	332.9	11.6	235.7	43.0	29.6	23.0	143
1957	350.6	11.8	247.7	44.2	32.0	23.1	143
1958	359.0	13.3	248.7	44.2	32.8	23.5	134
1959[a]	379.5	11.2	267.7	44.9	35.6	22.8	150
1960[b]	406.5	10.6	286.8	50.5	38.5	23.0	162

SALES and INVENTORIES

Year	25. Retail Sales	26. Wholesale Sales	27. Manufacturing Sales	28. Retail Inventories	29. Wholesale Inventories	3 Manufa Inven
			(Billions of Dollars)			
1950	144.0	100.8	231.6	19.3	9.1	3
1951	156.0	112.8	267.6	21.2	9.7	4
1952	162.0	115.2	273.6	21.6	10.0	4
1953	169.2	117.6	294.0	22.7	10.5	4
1954	169.2	116.4	282.0	22.1	10.4	4
1955	183.6	127.2	315.6	23.9	11.4	4
1956	189.6	135.6	332.4	23.9	13.0	5
1957	200.4	135.6	340.8	24.5	12.7	5
1958	200.4	133.2	314.4	24.0	12.0	4
1959[a]	218.6	147.6	354.0	24.5	12.4	5
1960[b]	231.0	154.7	380.0	25.2	13.0	5

Notes:
[a]*Preliminary*
[b]*Estimates*

Sources: Various issues of U. S. Department of Commerce, *Survey of Current Business; Current Population Reports;* U. eral Reserve System, *Federal Reserve Bulletin;* and Council of Economic Advisers, *Economic Indicators.* Prelimin Missouri.

CS AND 1960 FORECAST

POPULATION and EMPLOYMENT

7. Civilian Employment	8. Agricultural Employment	9. Nonagric'al Employment	10. Unemploy-ment	11. New Business Incorpations	12. Business Failures	Year
(Millions of People)				(Thousands)		
59.7	7.5	52.3	3.1	92.9	9.2	1950
60.8	7.1	53.7	1.9	83.7	8.1	1951
61.0	6.8	54.2	1.9	92.8	7.6	1952
61.9	6.5	55.4	1.9	102.5	8.9	1953
60.9	6.5	54.4	3.6	117.2	11.1	1954
62.9	6.7	56.2	2.9	139.7	11.0	1955
64.7	6.6	58.1	2.8	140.8	12.7	1956
65.0	6.2	58.8	2.9	136.7	13.7	1957
64.0	5.8	58.2	4.7	132.5	15.8	1958
65.8	5.8	60.0	3.8	194.5	14.2	[a]1959
66.7	5.6	61.1	3.2	195.0	13.5	[b]1960

NEW BUSINESS and FAILURES

PRODUCTION and CONSTRUCTION

HOURS and EARNINGS

19. Index of Industrial Production	20. New Construction Activity	21. Bus. Expend. on New Plant & Equipment	22. Sales of Electric Power to Comm'al & Industrial Users	23. Average Hrs. Worked Per Wk. Manufacturing	24. Average Wkly. Earn. Manufacturing	Year
(1947-49 = 100)	(Bil. Dol.)	(Bil. Dol.)	(Bil. KWH)		(Dollars)	
112	30.0	20.6	189.5	40.5	59.33	1950
120	32.7	25.6	215.1	40.7	64.71	1951
124	34.7	26.5	229.4	40.7	67.97	1952
134	37.0	28.3	259.2	40.5	71.69	1953
125	39.4	26.8	273.5	39.7	71.86	1954
139	44.2	28.7	330.0	40.7	76.52	1955
143	45.8	35.0	363.4	40.4	79.99	1956
143	47.8	37.0	377.0	39.8	82.39	1957
134	49.1	30.5	367.0	39.2	83.50	1958
150	55.0	32.6	414.0	40.4	88.90	[a]1959
162	56.0	36.0	438.0	39.6	91.50	[b]1960

CREDIT

PRICES

30. Manufacturing Inventories	31. Automobile Manufacturers Sales	32. Total Consumer Credit	33. Automobile Instalment Credit	34. Consumer Price Index	35. Wholesale Price Index	Year
	(Millions of Cars)	(Billions of Dollars)		(1947-49 = 100)		
34.3	6.7	21.4	6.1	102.8	103.1	1950
42.8	5.3	22.6	6.0	111.0	114.8	1951
43.8	4.3	27.4	7.7	113.5	111.6	1952
45.4	6.1	31.2	9.8	114.4	110.1	1953
43.0	5.6	32.3	9.8	114.8	110.3	1954
46.4	7.9	38.7	13.5	114.5	110.7	1955
52.3	5.8	42.1	14.5	116.2	114.3	1956
53.5	6.1	44.8	15.4	120.2	117.6	1957
49.2	4.2	45.1	14.1	123.5	119.2	1958
51.1	5.7	49.6	16.9	124.8	119.5	[a]1959
53.5	7.4	54.0	19.8	127.8	121.5	[b]1960

orts; U. S. Department of Agriculture, *Farm Income Situation; Demand and Price Situation;* Board of Governors of the Fed-
reliminary 1959 and estimated 1960 figures prepared by Robert W. Paterson, Bureau of Business Research, University of

adverse effect of the steel strike business' spending programs were probably adjusted downward and first quarter 1960 plans fail to reflect the true extent of capital needs.

Business' spending in almost all major categories during 1960 should be above levels established in the past, except for 1957. Now that a crippling steel strike has been averted, it is possible that even the figure for 1957 will be exceeded.

Some firms deferred expansion in 1959 due mainly to the steel strike. In 1960 capital outlays for new projects will have the added weight of the 1959 carryover. Thus, new investment in plant and equipment—a primary factor in economic expansion—should provide real power for a boom in 1960.

INDUSTRIAL PRODUCTION

Although fluctuations in industrial production tend to be wider and more closely related to changes in the general economy the index of industrial production does provide a fairly comprehensive measure of aggregate economic activity. The industries reflected in it represent strategic sectors of the economy and the index has come to be extremely important to those who watch for changes in the month to month position of the economy.

The index of industrial production which dropped to 134 in 1958 is estimated to be 150 in 1959. This is an all-time high and represents a tremendous upsurge in view of the long steel strike.

Durable manufacturers, which took a real beating in 1957-58, will be extremely strong in 1960. The output of automobiles, representing an unusually large segment of industrial activity, will be at near record levels for a large part of the year. Marked gains should also be established by the stone, clay, and glass products, and in electrical, and fabricated metal products industries.

Nondurable manufactures have not fluctuated as much as durables in recent recessions. In 1959, textiles and apparel, paper and printing, and chemical and petroleum products, were extremely active. The outlook for consumer expenditures in 1960 is excellent and non-durable production also should establish new records.

RELATED FACTORS

During 1959 the demand for credit exceeded available funds and interest rates rose. The situation will be the same in 1960. The demand for funds during 1960 will be bolstered by the needs of government, of consumers, and for private investment.

Population is increasing. From 1958 to 1959 it rose 3 million. It will climb about 3 million to a total of 180 million in 1960. And standards of living are rising. By 1970 the population of the U. S. should exceed 210 million. Thus, the basis for industrial production and investment over the long-run is providing short-run problems for those business managers who are seeking to maintain or expand their shares of the market.

The danger of disturbance in this situation presents itself when current expansion of capacity to produce becomes so much greater than current production needs that inventories build up too rapidly. The correction for this defect in planning is for industries to call a halt to expansion until population growth and/or consumption has caught up and then to begin the whole process again. At the times when capacity is expanding a sizable burden is put upon credit sources, which, when coupled with the demands from government and consumers, shapes the amount and extent of inflation. We have forecast increased expenditures by business, government, and consumers for 1960. Thus, a rising price level seems a certainty during 1960. While

it is hazardous to predict how much the consumer prize index will increase it does seem likely that the various pressures upon resources in particular sectors will cause a rise of 1.5 to 2 percent in the consumer price index during 1960. The settlement of the steel strike with significant hourly wage increases going to steel workers will bring pressure to raise steel prices late in the year and may add another one percent increase to the index.

GROSS NATIONAL PRODUCT

Although the possibilities of strikes in major industries have put a damper upon the optimism of businessmen they do, nevertheless, expect that 1960 will be the best year in history. The fact that a settlement has been reached in steel, however, removed a major source of pessimism. Given the existing state of confidence, an analysis of sector accounts yields the following make-up of gross national product in 1960.

1. GNP will top $500 billion during the year and will reach an annual rate for the year of about $515 billion.
2. Personal consumption expenditures will expand to a level of nearly $330 billion.
3. Gross private domestic investment will rise to $81 billion.
4. Net exports will be at a level of $500 million.
5. Government purchases of goods and services will increase to an amount around $104 billion.
6. Price increases will eat up about 1.5 to 2 percent of all gains.

Without question there is a boom in the making for 1960. The boom may not last for much more than 12 to 18 months before the maladjustments growing out of it cause changes in business and consumer expectations of the future.

The Automobile Outlook for 1960

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CHARACTERISTICS OF THE INDUSTRY

Missouri ranks high among the fifty states as a producer of automobiles. Although employment in the manufacture of motor vehicles and equipment accounts for a relatively small share of total manufacturing employment in Missouri, it tends to have a critical effect on the prosperity of the entire State. The sharp cyclical swings so typical in automobile production increase the importance of incremental changes in employment and personal income generated by auto production. Thus, the industry contributes a relatively larger share to unemployment in recession periods and to labor shortages in prosperity, than the absolute size of employment in motor vehicle production would indicate.

All of the Big Three—General Motors, Ford, and Chrysler—now maintain plants in the St. Louis and Kansas City metropolitan areas. Especially significant to Missouri is the placement of a substantial share of currently available compact car production capacity in these plants. Missouri stands to gain more from a rapid growth of the market for Valiants, Falcons and Corvairs than from an increase in the total demand for all domestically produced cars.

In order to evaluate the outlook for 1960, this analysis will consider: (1) factors likely to influence total domestic automobile sales and production in 1960; (2) the effects of recent events in the compact car market; and (3) the impact of forthcoming car sales on the Missouri economy.

As to the first consideration, an analysis of sales possibilities must take into consideration both near-term supply as well as demand conditions. Supply factors are of unusual importance this year and are, therefore, best dealt with first, since they must also have a considerable effect on the demand for cars.

THE SUPPLY OUTLOOK

Except in years of unusually severe strike activity such as 1952 (i.e., steel strike), or shortages caused by war needs (e.g. Korean War), the outlook is guided by demand.

The long steel strike during the last half of 1959 seriously disrupted production of 1960 model cars and hampered the effective introduction of the new 1960 compacts. The settlement of the steel strike re-

moves production stoppages in steel. Other major industries are now less likely to have serious strikes interrupting the production process because the work rules issue has been shelved, at least for a year, and wage increases will tend to follow the formula established in the steel industry.

THE DEMAND OUTLOOK

Among the most important factors influencing the demand for automobiles during the year will be: (1) the level and direction of change of disposable personal income; (2) the state of consumer confidence; and (3) the introduction of the new compact cars.

Disposable Income

The disposable personal income of consumers in the United States is one of the most significant factors influencing their ability to purchase new cars.

Even more important than the size or level of disposable personal income is its direction of change. During periods when the direction is upward the sales volume of cars generally rises by more than the increase in disposable income. On the other hand, when disposable income is falling, car sales tend to suffer a larger than proportionate decline. Basically, consumer willingness to buy cars is stimulated by rising incomes, whereas consumers tend to postpone major outlays during periods of uncertainty and falling incomes. Thus, the level of income influences ability to buy cars, and the direction has a bearing on willingness to purchase.

The current odds for a 1960 increase in the already high level of income appear quite favorable.

Consumer Confidence

The willingness of consumers to spend on automobiles depends not only on the direction of income movements, but also on various psychological attitudes toward other conditions in the market and consumer expectations regarding these conditions. Economists have usually termed these psychological factors the state of consumer confidence in the future.

Work done by the Survey Research Center at the University of Michigan has done much to demonstrate the usefulness of including a measure of the state of consumer confidence as well as income movement in attempts at more accurate forecasts of consumer purchasing behavior and future demand. The Survey Research Center now prepares an Index of Consumer Attitudes which is published twice each year in *Business Week*. This index is based on questions designed to measure changes in consumer attitudes (i.e. predispositions to buy) toward their own financial situation, their expectations of changes in business conditions and the economic prosperity of the United States, their attitudes toward prices, credit, dealer discounts and other buying conditions surrounding the purchase of automobiles and household durables, as well as their plans to purchase a selected list of specific durables, such as cars, homes, applicances, etc.

The survey taken in May-June, 1959, indicated a substantial improvement in consumer confidence from the November-December, 1958, study.

A comparison of the movement of the Index of Consumer Attitudes during the recovery from the 1953-1954 recession to the present recovery from the 1957-1958 recession shows up a difference in trend which may be significant for developments during 1960. The bottom of the 1953-1954 recession was reached sometime in the second quarter of 1954. The Survey of Consumer Attitudes revealed an improvement of consumer optimism as early as June, 1954, with a further substantial increase in optimism by October, 1954, despite the fact that most consumers had not experi-

enced a significant increase in their incomes. Thus, economic indicators of production and income during the last half of 1954 gave most forecasters no indication of what was about to take place in 1955.

Consumer attitudes and plans to buy cars, on the other hand, improved substantially during the period immediately after the bottom of the recession had been reached. They distinctly led income and other economic indicators in the shift toward a boom in consumer expenditures for cars and other durables. The automobile manufacturers who had been following changes in economic indicators generally, and had paid relatively less attention to changes in consumer attitudes and plans to buy, were actually unprepared for the deluge of orders after the introduction of their 1955 models.

In contrast, consumers actually seem to have held back on committments during the early stages of recovery after the 1957-58 recession had reached its bottom in April, 1958. Although consumers in 1958 experienced an increase in disposable income which was more rapid and sizable than during the earlier recovery, the improvement in consumer optimism as measured by the Index of Consumer Attitudes lagged rather than led this improvement in economic conditions. Quite significantly no really strong boom in the sales of cars had developed by the end of the first half of 1959.

To be sure, the sales of cars improved substantially from the dismal showing in 1958, but this increase, to an annual rate of about 5.5 million must be measured against a base of 4.2 million sales in 1958. Along with 1952, the year of a long steel strike; 1958 represents a low point in annual sales volume, far below the volume normally predicted by the industry itself.

The findings of the May-June, 1959, Survey of Consumer Attitudes indicated a good improvement in consumer optimism. However, this improvement in buying mood came at the beginning of the steel strike. Some of the planned expenditures for cars were probably diverted to expenditures on available soft goods. Some were not made at all due to the uncertain income situation caused by the steel strike.

It would be idle to speculate on what would have happened had the steel strike not taken place or been of such long duration. However, two other events which may strongly influence the buying mood of the public took place in the last half of 1959—the Khrushchev visit and the introduction of the new compacts.

There has been a definite relaxation of international tension. This has been symbolized by Premier Khrushchev's visit to the United States, President Eisenhower's trips, and a decision to meet at the "Summit" in 1960. Studies of prospects for consumer expenditures indicate that greater certainty about the future, which comes with greater assurance of world peace, may improve the buying mood of the public, particularly with respect to products for which large outlays are necessary. Since approximately 60 percent of the buyers of new cars finance them for periods up to 3 years, they want assurance that no major disruption of income will occur during the pay-off period.

The second major event which may stimulate most directly an increase in the total demand for new cars is the introduction of the new compact cars.

The Compact Cars

The potential market for compact cars is considerably larger than current sales of foreign and independent domestics indicate. Some of the major uses to which automobiles are put by Americans have changed significantly in the last decade. A rapidly increasing proportion of the population now lives in suburban areas. Much of the population is concentrated in great inter-urban belts. The largest of these inter-urbias

stretches along the east coast all the way from Boston to Norfolk, Virginia. Among other areas of heavy concentration is one located around Lake Michigan, extending from Milwaukee through Chicago into the northwest corner of Indiana; another is along the western and southern shore of Lake Erie (Detroit-Toledo-Cleveland); others are on the west coast around Los Angeles and San Francisco. Within these inter-urban areas, particularly, traffic congestion is an ever present and almost unsolvable problem. Speed is everywhere limited, not only by law, but by the inability of cars to take off and hurdle over one another. Driving in any direction the automobilist experiences the continuous annoyance of stop and go slow. Standing in long lines of halted cars burning up gas is common during every rush hour and for Sunday drivers. Cars are also more frequently used for short trips to visit shopping centers, to drive children to and from school, and to commute to work. Anyone observing car traffic on the major highways leading to and from the surburbs of the great metropolitan areas must be amazed by the number of cars whose sole occupants are their drivers.

From the user's standpoint it would appear reasonable that most of these short trips require cars which have certain common elements. The car should operate efficiently and economically at low driving speeds, must have agility and maneuverability in heavy traffic and for parking, including rapid acceleration for passing and pushing into crowded traffic lanes. This means that engines which operate most efficiently at high speeds, cars which are relatively large for parking spaces, and which are hard to brake and steer without power assists increase the driving chore and expense for the driver. The first reaction of the buying public to this problem situation was to demand power accessories which made it easier to steer, brake and shift and yet to continue to buy big cars. These accessories did not, however, solve the problem, they only alleviated it, and *they increase gas consumption and initial cost.* Now the attitude of drivers seems to be undergoing another major change. The small car offers a better solution to many car owners who drive in congested areas. The small car does not require as many assist accessories and reduces gas consumption as well as the initial cost of purchasing.

There apparently has also been a change in attitudes toward psychological satisfaction derived from car ownership. Among middle-income owners it is becoming more socially acceptable to talk about cars as utilitarian vehicles for private transportation, to show concern about operating costs and depreciation and less concern with the car as a symbol of one's status in society.

Probably the largest part of the market for compacts will be found among car owners whose needs and driving habits are of the type described above. The compact car will frequently be bought to serve as an additional car. The first and conventional size car will be used for longer trips, where driving comfort and roominess are major considerations. The compact is not really an all-purpose car, neither, of course, is the present conventional-sized car.

Many car owners located in the crowded inter-urban areas make so few long trips that they may prefer the compact car if it is to be their only car. For long trips they may use public transportation or make the compact do, even though it definitely lacks some of the desirable qualities for long distance travel.

On the basis of these considerations the possibilities for a deep market penetration by the compacts appear quite strong.

Nevertheless, the market for compacts is limited by basic long-term as well as short-term factors. Among limiting long-term factors will be user's attitudes toward such

features as: (1) baggage and equipment carrying capacity; (2) passenger seating capacity; (3) passenger comfort; (4) comfortable and efficient high speed operation; (5) passenger protection in case of collision; (6) prestige value; and (7) resale value.

With increasing penetration of the market, the compact's novelty, scarcity, or reverse "snob-appeal" values will also tend to disappear. However, buyers motivated by these current appeals of the compacts are likely to turn out in large numbers in the near-term future provided that the Big Three can find more effective ways to sell them to the public.

MARKETING COMPACTS

The marketing problems encountered by the Big Three in introducing their compact cars will slow down the speed of market penetration. Among the problems are: (1) prices relative to competitive foreign compacts; (2) prices relative to the lowest-priced full-sized cars; (3) handling of prospects by dealers and salesmen selling both compacts and low-priced conventional cars; (4) advertising appeals which must avoid "knocking" conventional cars as well as sell the virtues of compacts; (5) service and maintenance problems; and (6) the effect on late model used car trade-in values.

The price difference between the smaller foreign compacts selling in the $1500-$1700 range with basic accessories and the Big Three's compacts selling around $2000 with basic accessories will surely be noticed by the price conscious buyer. Since many prospective buyers will consider lower price as one of the main reasons for purchasing a compact, the new compacts will have little to offer to this substantial segment of the potential compact market.

The price differential between the lowest priced-lines of the full-size cars and the Big Three compacts is relatively small. It will almost disappear in the eyes of the three out of five buyers who customarily finance their new cars and pay for them in monthly installments.

If low price cannot be used as a major sales appeal to economy-conscious prospects, can lower operation and maintenance costs be so used? To a considerable extent economy-conscious buyers appear to think in terms of gas savings when they speak of operating economy. Those who trade frequently also consider the yearly depreciation in the value of their cars as trade-ins. Gas-savings will actually be most apparent and significant to heavy users (e.g. salesmen) who drive perhaps 20,000 miles per year. Will these heavy users consider a compact comfortable and heavy enough for the job? In many cases a reduction in repair, maintenance, and depreciation costs will contribute more to reducing costs of operation than gas economy. It is difficult to predict buyers' attitudes and beliefs in this area. If prospective buyers become aware of the relatively small difference in gas costs and have only a vague idea about the difference in other costs of operation, then the Big Three may find it difficult to make a strong appeal to the economy-conscious buyer.

A further problem faced by the Big Three is their present distribution set-up. If potential buyers are to be effectively sold on the advantages offered by the compact, a considerable amount of comparison to the conventional-sized cars is surely necessary. This requires that dealers and salesmen are trained in the skill of "qualifying" the prospects, that is, ascertaining whether the prospective buyer actually wants a compact or a standard-size car, before going into their sales presentation. "Qualification" and skillful presentation of positive features presents a formidable task which when carried out badly may lead to considerable confusion among prospects rather than actual sales.

The customers reasons for buying a Big Three compact, however, may not be significantly different from those considered in the purchase of one of the stripped-down models of the standard-size low-price lines. Because differentiation of the important features offered may be difficult for the dealer who also sells Fords, Chevrolets and Plymouths, the compacts might be handled much more effectively by the medium price-line dealers.

For medium price-line dealers the problem of "qualifying" prospects would be reduced, since a more definite difference in price and use exists. Furthermore, many of the prospective buyers may have been previous patrons of the medium price-line dealer and are now shopping for an additional car for town use.

The medium price-line dealer would probably try to do a more aggressive selling job than the lower price-line dealer. His sales typically have been declining and he will be ready to spend more time and promotion on the compact. Apparently the Big Three are planning to give their medium price-line dealers somewhat higher priced compacts. This proliferation of models during the early stages of the compact introduction will both enlarge the prospects' choice and make it more confusing. The economy benefits which can now be claimed for the low priced compacts will tend to disappear altogether, and in fact a a higher priced compact will compete with the Ford, Chevrolet, and Plymouth lines.

Observation of much of the Big Threes' current advertising for the compacts reveals similar complications. Clearly the advertisers are fearful of "knocking" their own conventional cars. As a result the stress is on selective appeals (i.e. distinctive features) of the specific make of car advertised, rather than on the primary appeal (i.e. common advantages of all "compact" cars). Good marketing practice during the introduction stage is to stress primary appeals until the product is thoroughly established. Then, only, should the seller shift attention to more distinctive features and stress competitive advantages of his own product.

Since the compact cars incorporate substantial innovations in engine and body design, service problems can also be anticipated. Dealer and independent mechanics will need rapid training. More important are the usual "bugs" from which every new model suffers. These are likely to be more numerous and more difficult to overcome because of the radical engineering changes.

A further problem for the Big Three is the compacts' probable effect on used car trade-in values. Each year's new model crop cannot be considered fully sold by the manufacturers until all the used cars which are customarily traded-in on about 90 percent of the purchases are resold to used car purchasers. Used car prices play a complex role in the marketing of new cars. When strong demand for used cars drives up their values as trade-ins, the net cash outlay which the new car buyer has to make is narrowed and new car rather than used car buying is encouraged. If, however, compact car sales should reduce substantially the saleability of late model full-sized cars then their value as trade-ins is likely to be depressed, making the price differential for prospective new car buyers a greater obstacle.

In summary, the 1960 sales of compacts will to some extent be made at the expense of conventional-sized new and used cars. Nevertheless, the compacts can also be counted on to expand the total demand for cars in 1960, not just to shift it away from conventional sizes. Their novelty appeal alone will stimulate extra sales. Furthermore, they will serve the distinctive wants of a sizeable group of buyers whose driving needs make the compact most attractive and useful to them.

THE SALES OUTLOOK

Sales of 7,500,000 U. S. produced cars appear feasible if one takes a very optimistic view of the total situation. This estimate is based on the expectation that: (1) consumer income will continue to rise at a high rate; (2) consumer optimism about the world's political conditions, U. S. economic conditions and personal financial conditions will continue to improve sharply; (3) the new compacts will strongly stimulate potential buyers who otherwise would not have entered the market for a car this year; and (4) the car manufacturers will be able to produce as much as they can sell.

This maximum estimate may have to be reduced considerably if any one of the foregoing conditions under which it is made turn out otherwise. It is even more difficult to arrive at a minimum estimate. The odds are reasonably good for 1960 sales to be at least as good as sales in 1959; that is in the neighborhood of 5,500,000. On balance, the odds appear highest for sales to run between 6,500,000 and 7,000,000 units in 1960. Sales of this latter magnitude will contribute to improved economic conditions in Missouri.

THE OUTLOOK FOR MISSOURI

During the 1959 model year (October 1958-October 1959) Missouri ranked fourth among the states in passenger car production. States with a higher share of production were: (1) Michigan (28.3%); (2) Wisconsin (10.3%); (3) California (8.5%). Missouri production amounted to 439,999 units and accounted for 7.9 percent of 5,565,000 units produced in the United States.[1]

Monthly employment in the manufacture of motor vehicles and equipment over the October 1958-October 1959 period averaged 21,300 persons.[2] These employees account for approximately 6 percent of total manufacturing employment in Missouri. Assuming an annual wage of $5,000 per employee the motor vehicle industry contributes more than $100,000,000 annually to personal income in the State.

According to the records of the Automobile Manufacturers Association the following passenger car assembly plants are located in Missouri:

Kansas City
- Chevrolet-Corvair
- Ford-Falcon
- Fisher Body
- Buick-Oldsmobile-Pontiac (Kansas City, Kansas)

St. Louis
- Chevrolet
- Mercury-Lincoln
- Plymouth-Dodge
- Fisher Body

A substantial increase in employment is a strong possibility during the 1960 model year. Production facilities of most major makes produced by the Big Three are located in Missouri. The Chrysler Corporation plant in St. Louis is new and not included in the 1959 employment figure. It has begun to provide for the additional employment of several thousand persons during the 1960 model year. The Kansas City Chevrolet plant together with the Willow Run, Michigan, plant were the first to be designated for assembly of the compact "Corvair." The Kansas City plant is expected to produce about one-third of all Corvairs unless sales volume develops beyond current expectations. At this time the Big Three have concentrated a substantial share of their compact car production in Missouri and the State stands to benefit considerably from these new developments in the automobile industry.

[1] Source: Ward's Automotive Reports—October, 1959.

[2] Source: Division of Employment Security, Jefferson City, Missouri. Employment figures are taken from the series on **Non-agricultural wage and salary employment in motor vehicle and equipment manufacture.**

The Public Image of Advertising Media

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As a general principle of research, it is often desirable to follow what might be termed a reverse analytical procedure: If we apply this to advertising, it means that our analysis should begin with the buying decision itself.

Whether a sales message is delivered in person or through an advertising medium, its primary purpose is the same—to persuade others to buy.

The first step is the delivery of the message. It cannot accomplish anything until it is received. Hence advertisers must concern themselves with the size of advertising audiences and ratios of exposure to their advertising message.

But there is a second and equally important element which is inherent in the persuasive process itself. A subtle blending of rational argument and emotional appeal, persuasion is perhaps the most difficult part of the complex art of communication.

In terms of persuasive impact, the sales message cannot be divorced from the communicator who transmits the message. As every sales manager knows, the personality of a salesman is a critical factor in his relative efficiency.

All of us know the reason for this from everyday personal experience. By whom are we most readily persuaded to do anything? Clearly, by those we like, who hold our interest, whose judgment we respect, whose integrity we rely upon. In brief, by those we like, admire, respect and trust.

If a salesman has these qualities, he will be more persuasive and more effective than another salesman, less favorably regarded, although the product and the sales message are identical in each case.

It is our hypothesis that the same reasoning applies to a message delivered through an advertising medium. Here again, the message cannot be divorced from the medium of communication. In terms of persuasive impact, the message is colored by the personality of the medium. The two blend and interweave in some form of subtle interaction.

This, then, leads us to the conclusion that the public image of an advertising medium should be as relevant and meaningful to the advertiser as the personality of a salesman

is to the sales manager, and for precisely the same reasons.

Granting that this is so, two practical questions remain. First, do the major media differ significantly in personality? And secondly, can a valid measure of these differences be obtained?

To get some answers to these questions a survey was conducted attempting to identify, measure, and compare the public images of radio, television and newspapers in the Richmond urban and suburban areas. The results were reported in detail in *The Climate of Persuasion*, published in 1959 by the Richmond Newspapers, Inc. A summary of methods used and conclusions is included here.

Based on probability sampling, the results can be projected to population totals. They indicate, quite clearly, that the three media do have separate and distinct images, which can be defined and measured in terms of nine dimensions of personality.

SURVEY DESIGN AND METHOD

To measure the image of each of the three media included in our analysis, we decided to use the semantic differential approach. Each respondent was asked to rate the medium at one of ten intervals between each set of polar adjectives, with twenty-four such sets altogether, as shown in the questionnaire for newspapers on the opposite page.

Exactly the same format was used in the questionnaire for broadcast media, except that "radio or television" was substituted, whenever appropriate, for "Time-Dispatch or News Leader."

Survey data were obtained by personal interview of all adults and teenagers that could be reached in households selected by probability sampling in the Richmond urban and suburban areas.

Interviewing was accomplished in two waves. The first took place in November, 1958, with interviews completed in 447 of the 500 households included in this sample. This first part of the survey was confined to the newspaper questionnaire.

The second wave of interviewing took place in January, 1959, with a matched sample (the house next door for one-half of the original sample), and was restricted to the questionnaire on radio and television. Interviews were completed in 236 of the 250 households included in this sample.

The two-phase approach was adopted to reduce respondent fatigue. In this way, no respondent was required to complete more than two of the semantic differential tests. The second wave was halved in size after preliminary results from the first had revealed sufficient stability to justify this reduction in sample size.

DEVELOPING AN INDEX

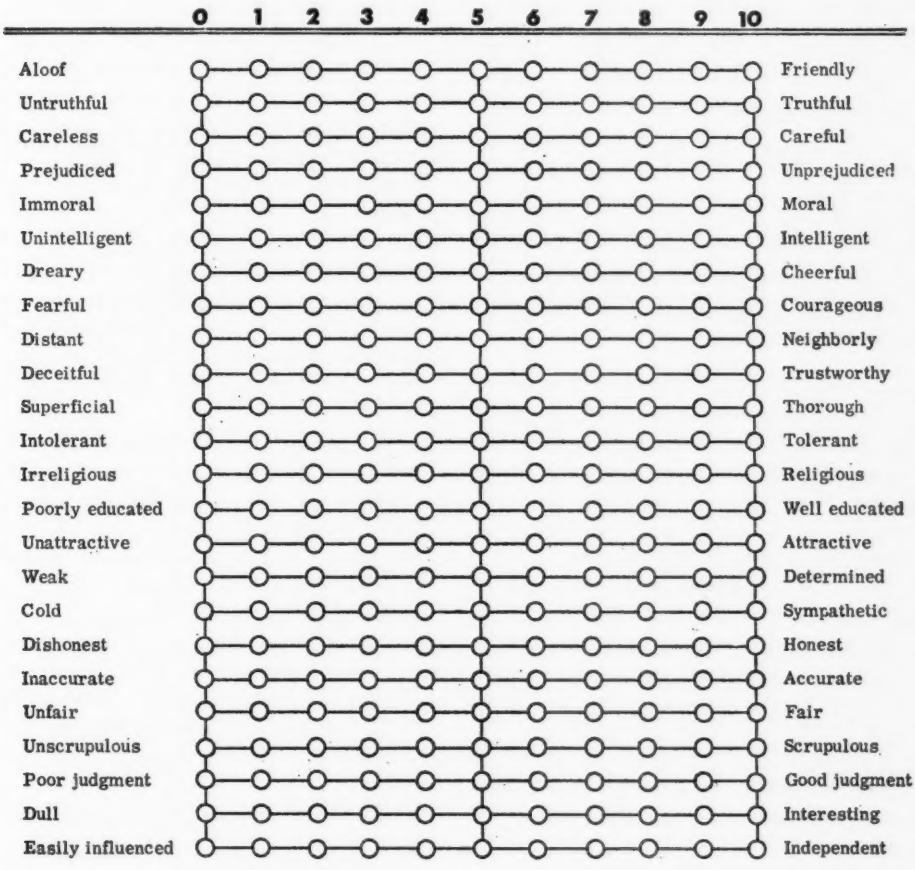
The actual distribution of ratings on each of our twenty-four scales—the percent who checked 10, or 9, or 8, and so on—is much too detailed and unwieldy for comparative purposes. What we need is some one figure, an average or index number, to summarize the rating distribution in each case.

A typical approach to this type of problem is simply to subtract the percentage of unfavorable responses from the percentage of favorable responses, and use the difference as the desired summary measure. This is sound procedure, as far as it goes, but it does not go quite far enough for our purposes, because it takes no account of the intensity of attitude. A rating of 8 is favorable on our scales; so is the rating of 10: but clearly, the two are quite different in intensity and meaning.

Further, we should recognize the general tendency of respondents to be pleasing in an interview, with a consequent bias in the direction of a favorable response to any question. While 5 is the mathematically

YOUR FRANK APPRAISAL OF The Richmond News Leader ( )
Richmond Times-Dispatch ( )

Think of this newspaper as though it were a person, a regular visitor to your home. Listed below are words to describe your feelings about the newspaper. By placing an X anywhere along each line, you indicate your feelings in each case. We want your honest, sincere opinion—so please be frank.



neutral point on our scales it is more realistic in our opinion to consider 6 and 7 the true neutral position.

This reasoning leads us to the index number described in Table 1. In effect, this number represents the difference between favorable and unfavorable responses, except that these responses are weighted in terms of intensity—the weights increasing as the rating deviates from neutrality.

Stated another way, this index number serves as a single summary measure of both

TABLE 1

RATING INDEX

Illustration

Rating on Scale	Number of Ratings	Weights	Number Weights X
0 to 4	40	—1.5	— 60
5	80	—0.5	— 60
6 or 7	80	0	0
8	110	+0.5	+ 55
9	130	+1.0	+130
10	160	+1.5	+240
Total	600	—	325

Index = 325/600 = 54%

Note: If we count any rating of 8 or more as favorable, and 5 or less as unfavorable, there are 400 of the former and 120 of the latter on this scale, a difference of 280, or 47 per cent of the total number of ratings. This index number is slightly higher than this unweighted difference because it gives weight to intensity as well as direction of attitude.

the direction and intensity of ratings on each scale. An index number of 100 represents the equivalent of total approval of a given attitude; 0 as a standoff between positive and negative reaction; and any negative index as a preponderance of unfavorable over favorable reaction.

For practical purposes of interpretation, no significant error will be involved if the index number is thought of in terms of its conceptual equivalent: excess of favorable over unfavorable ratings as a percent of the total number of ratings on each scale.

Indexes for men and women are combined with equal weight to arrive in each case at the composite average for the two.

PERSONALITY SUMMARY

Our findings are summarized in Table 2 and Chart 1. The basic patterns are quite clear, and require little discussion.

Television is regarded as more attractive and interesting, but less moral, than radio. Otherwise, the two broadcast media have much the same image.

But the public has a very different image of newspapers from that of either radio or television. The differences are made quite evident in the chart and table, and any further comment would be superfluous.

Our next step is to explore these images in more detail, particularly as they relate to acceptance of or resistance to advertising.

SPECIFIC QUESTIONS

As a supplement to the semantic differential test, each respondent in the second wave of interviewing was asked to answer a series of questions designed to throw more light on the image of each medium.

In order that the results might be more specific, in terms of the population to which they may be applied, this portion of our analysis is restricted to adult respondents only. Thus the answers reported in Table 3 are those given by 299 adults—92 men and 207 women.

Separate tabulation revealed that the answers given by men and women are closely correlated, and combining the two gave us a larger sample which could be classified by other factors such as socio-economic status.

Each individual was assigned to his or her appropriate socio-economic group based on evaluation of income, education, occupation and place of residence. Upper and upper middle respondents are shown in the table as "A and B," lower middle as "C," and lower status individuals as "D."

FINDINGS AND CONCLUSIONS

Based on both the semantic differential ratings and answers to specific questions as reported in Table 3, we conclude that the three major media do have distinct images in the eyes of the public; that these images can be defined with some precision; and that they differ sharply between newspapers on the one hand and broadcast media on the other.

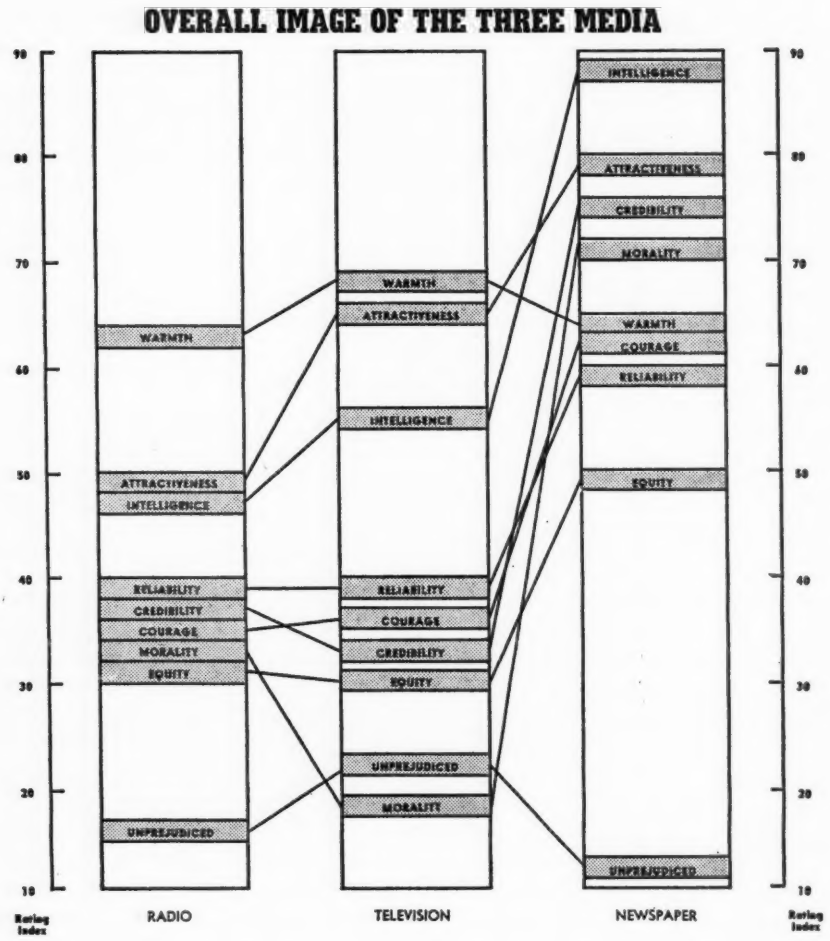
TABLE 2

SUMMARY OF INDEX RATINGS

Dimension and Trait	Men			Women			Combined			Dimension and Trait
	Radio	Television	Newspapers	Radio	Television	Newspapers	Radio	Television	Newspapers	
Warmth	62	67	61	64	69	67	63	68	64	.....Warmth
Friendly.....	53	67	60	63	74	69	58	71	65	.....Aloof
Neighborly....	64	66	62	68	66	69	66	66	65	..... Distant
Cheerful.....	68	67	62	60	66	62	64	66	62	..... Dreary
Attractiveness..	46	66	79	50	65	78	48	65	79	..Attractiveness
Attractive.....	40	63	72	53	62	72	47	62	72	.. Unattractive
Interesting....	53	68	87	46	68	85	49	68	86	.....Dull
Equity.....	32	30	51	32	31	48	32	30	49	.....Equity
Unprejudiced*.	15	16	9	17	28	15	16	22	12	...*Prejudiced
Tolerant.....	36	38	49	37	40	44	37	39	46	.....Intolerant
Sympathetic...	38	30	47	34	27	48	36	28	47	..... Cold
Scrupulous....	23	23	56	24	25	52	24	24	54	..Unscrupulous
Reliability	36	38	59	40	39	59	38	39	59	..... Reliability
Careful.....	32	30	56	42	44	60	37	37	58	.....Careless
Thorough	28	38	57	34	35	57	31	36	57	....Superficial
Accurate.....	44	47	63	46	35	60	45	41	62	.... Inaccurate
Fair	40	44	60	43	46	61	42	45	61	.....Unfair
Good judgment.	38	33	60	35	35	58	36	34	59	.Poor judgment
Courage	35	38	63	35	34	60	35	36	62	..... Courage
Courageous ...	38	40	60	33	33	59	36	36	59	..... Fearful
Determined ...	42	44	67	45	39	66	43	42	67	..... Weak
Independent ...	26	30	63	28	30	56	27	30	59	...Easily influ.
Intelligence	49	58	88	48	53	88	48	55	88	.... Intelligence
Intelligent.....	53	54	91	51	59	90	52	56	91	...Unintelligent
Well educated .	44	62	85	45	46	85	44	55	85	.. Poorly educ.
Morality.....	34	16	73	37	21	70	35	18	71	.....Morality
Moral	45	22	83	37	26	79	41	24	81	.....Immoral
Religious	23	10	63	36	16	61	29	13	62	....Irreligious
Credibility.....	30	30	77	42	37	73	36	33	75	.....Credibility
Truthful	25	29	77	42	37	74	33	33	76	.... Untruthful
Trustworthy...	34	32	72	40	37	70	37	34	71	..... Deceitful
Honest	31	28	82	45	37	74	38	32	78	..... Dishonest

*Although conceptually related, this scale apparently measures a separate dimension, and hence is excluded from the "equity" average.

CHART 1



While there are some differences between the two, radio and television have much the same public image. Both are clearly regarded as a part of show business which, of course, they are in fact.

The purpose of show business is to entertain; the purpose of a newspaper is to inform. Our findings leave no doubt but that the public is fully cognizant of this distinction and all of its connotations.

Show business is regarded as interesting, entertaining and glamorous; but it is not associated in general with the more solid traits of character: courage, morality, reliability, and credibility. By contrast, the newspaper is strongly identified with these elements of character, which in turn form the basis for trust, belief and respect.

Socio-Economic Differences

This broad summary must be conditioned by another of our basic findings: in general,

TABLE 3

ANSWERS GIVEN BY ADULT RESPONDENTS IN RICHMOND TO SPECIFIC QUESTIONS ON ADVERTISING MEDIA

Question	Socio-Economic Group A&B	C	D
Compared with a year ago, do you think television programs are more or less interesting, or about the same?			
More interesting	34%	33%	53%
Less interesting	29	18	9
About the same	37	49	38
If you had to give up one of these—radio or television or newspapers—which would it be?			
Give up radio	68	70	53
Give up television	20	11	21
Give up newspapers	12	19	26
If you could keep only one of these—radio or television or newspapers—which would it be?			
Keep radio	11	10	19
Keep television	47	56	49
Keep newspapers	42	34	32
Which of these do you like least to do: listen to radio, look at television, read the newspaper?			
Like to listen to radio least	68	63	60
Like to look at television least	20	12	9
Like to read the newspaper least	12	25	31
Which of these do you like most to do: listen to radio, look at television, read the newspaper?			
Like to listen to radio most	10	13	26
Like to look at television most	48	68	52
Like to read the newspaper most	42	19	22
In general, do you like advertising:			
On radio ... Yes	28	46	55
On television ... Yes	44	61	82
In newspapers ... Yes	92	90	84
In general, do you usually listen to or ignore advertising:			
On radio ... Usually listen	27	39	59
On television ... Usually look	52	61	79
In newspapers ... Usually read	90	88	82
In general, do you believe in the honesty and accuracy of advertising:			
On radio ... Yes	39	53	51
On television ... Yes	40	54	47
In newspapers ... Yes	92	88	84
Which do you consider the most honest and accurate, that is, which do you put the most faith in—advertising:			
On radio	3	1	5
On television	4	10	14
In newspapers	80	66	57
No difference	13	23	24

TABLE 3—Continued

Question		Socio-Economic Group A&B	C	D
Do you get any information that helps you in buying various products from advertising:				
On radio	Yes	23%	39%	46%
On television	Yes	49	58	53
In newspapers	Yes	94	89	90
From which of these do you get the most useful buying information—advertising:				
On radio		3	5	11
On television		15	17	18
In newspapers		82	78	71

the lower an individual on the socio-economic scale, the more favorable his image of the broadcast media. Although more nearly constant at all economic and educational levels, the newspaper image, by contrast, tends to improve as we go up the socio-economic scale.

It is quite clear from our findings that these images carry over into the relative acceptance of or resistance to advertising in each of the media. In the answers to our specific questions on this subject, we find the same basic pattern of favorable and unfavorable response, by type of person, by media.

The evaluation of these differences, and the weight to be assigned to each, must be a part of overall advertising judgment, and doubtless will and should vary with each campaign, depending on the product and its particular sales position and objective.

With no thought of pre-empting this judgment, but simply by way of illustration, it may be helpful to list a few general principles that our findings suggest.

Basic Principles

As advertising shifts from the simple goal of impressing people with a brand name by the simple process of repetition to the more complex objective of persuading the consumer to buy the product, by any appeal other than name impression only, the balance wheel shifts away from the broadcast media towards the newspaper as the appropriate medium.

Whenever believability is important, where the consumer is asked to trust an advertiser's statement in something that is new or different or cannot be verified from the consumer's own knowledge or experience, the intangibles of media image work in favor of newspapers over broadcast media.

When the object of advertising is to create a quality image for the product or its producer, a feeling of prestige, admiration and respect, the newspaper medium would seem more likely to connote and hence impart these qualities.

There is nothing particularly new, of course, in identifying broadcast media with the intrusive type of advertising, designed to impress some simple, repetitive message upon the conscious and subconscious, in contrast with the more complex and difficult informational and persuasive role of which newspaper advertising is capable.

But the prestige aspect of newspaper advertising, along with its high degree of believability, both correlated with socio-economic status, has not been given appropriate emphasis. I hope others will push forward research into the *Climate of Persuasion.*

University of Missouri
BUSINESS AND ECONOMIC REVIEW
COLUMBIA, MISSOURI
Application to mail at second-class rates
is pending at Columbia, Missouri